



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

March 26, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

John Naimo FOR

SUBJECT: **REGISTRAR-RECORDER/COUNTY CLERK – TRUNCATION FEE
SPECIAL FUND FIRST REVIEW (JUNE 1, 2012 – DECEMBER 31,
2013)**

On March 25, 2008, your Board authorized the Registrar-Recorder/County Clerk (RR/CC or Department) to charge an additional fee of \$1 for recording the first page of recorded documents until December 31, 2017 to cover the cost of implementing the Social Security Number (SSN) Truncation Program (Program). The Program is mandated by Assembly Bill 1168 and, pursuant to Government Code (GC) Section 27301, it is intended to protect the public from disclosure and possible fraudulent misuse of personal information contained in recorded documents that are available to the public.

In addition, GC Section 27361 requires the Auditor-Controller to conduct two reviews of the Program, with the first review to be completed between June 1, 2012 and December 31, 2013. The reviews are required to include RR/CC's progress in truncating recorded documents, and the Department's estimate of any ongoing costs of complying with the GC. We completed our review within the specified time period, and our report is attached.

Background

The law requires the RR/CC to create an electronic "public record" version of each "official record" and redact the first five digits of the SSN on any document recorded from January 1, 1980 through December 31, 2008. The law does not specify a deadline

for creating electronic “public records” or fines for failing to complete redactions. Specifically, the RR/CC is deemed to be in compliance with this law if they use “due diligence” to locate and truncate SSNs in official records. Upon notification that a public record was not properly truncated, the RR/CC has 10 business days to replace the “public record” with a properly truncated version.

For documents submitted for recording on or after January 1, 2010, the submitter is not entitled to have their documents recorded if they contain more than the last four digits of a SSN, unless otherwise required by law. For those documents required by law to be recorded with a SSN (e.g., Abstract of Judgment, Affidavit of Death of Joint Tenant, etc.), the Department must truncate the document subsequent to recording.

Review Summary

Program Status

Our review identified the following concerns:

- For historical documents recorded between 1980 and 2008, the RR/CC has identified 12.5 million candidate documents that may require truncation, but has not yet started truncating these documents. The Department estimates completing the SSN redaction/truncation process for historical documents by 2018.
- The RR/CC has been truncating/redacting SSNs for documents recorded on or after January 1, 2009 on an ongoing basis. However, we noted that the Department did not redact the SSN from five (10%) of the 50 documents reviewed.

RR/CC's attached response indicates that every document that is targeted will go through the redaction process. In addition, the Department indicated that as of December 16, 2013, they have implemented a new process to spot check the redaction candidates after the documents have gone through the truncation software from January 1, 2009 and ongoing to ensure redaction of any document potentially missed.

Revenue and Cost Estimates

The RR/CC's total revenues/collections for the Program from inception (2008) through 2017 are estimated to be \$18.1 million. Total costs for the same period are estimated to be \$7.1 million. We concluded that:

- The Department's cost estimate does not include all costs, and the Department could not provide support/justification for a portion of the costs. We also noted that based on the Department's estimates, it appears that the Department will collect significantly more revenue than needed to complete the Program. Specifically, the Department estimates a balance of \$11 million in unexpended

funds as of June 2018 when they complete truncating the documents recorded from 1980 through 2008.

RR/CC's attached response indicates that they will evaluate future estimated ongoing workload and materials costs. The RR/CC also indicates that any accumulated funds will be needed to adequately cover the anticipated future ongoing maintenance, equipment, employee, and overhead costs for the redaction process. However, the Department indicates that they will work with the Chief Executive Office and County Counsel to discuss the collection of future fees to ensure compliance with legal requirements.

Use of Funds

We noted that the RR/CC appropriately used the funds only for the purpose of the Program.

Details of the RR/CC's progress, revenue/cost estimates, etc. are included in Attachment I, along with our recommendations.

Review of Report

We discussed the results of our review with RR/CC management. The Department's attached response (Attachment II) indicates general agreement with our findings and recommendations.

We thank RR/CC management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:MP

Attachments

c: William T Fujioka, Chief Executive Officer
John F. Krattli, County Counsel
Dean C. Logan, Registrar-Recorder/County Clerk
Public Information Office
Audit Committee

**REGISTRAR-RECORDER/COUNTY CLERK
TRUNCATION FEE SPECIAL FUND FIRST REVIEW
JUNE 1, 2012 THROUGH DECEMBER 31, 2013**

Background and Scope

On March 25, 2008, your Board authorized the Registrar-Recorder/County Clerk (RR/CC or Department) to charge an additional fee of \$1 for recording the first page of recorded documents until December 31, 2017 to cover the cost of implementing the Social Security Number (SSN) Truncation Program (Program). The Program is mandated by Assembly Bill 1168 and, pursuant to Government Code (GC) Section 27301, is intended to protect the public from disclosure and possible fraudulent misuse of personal information contained in recorded documents that are available to the public.

The law requires the RR/CC to create an electronic “public record” version of each “official record” and redact the first five digits of the SSN on any document recorded from January 1, 1980 through December 31, 2008. The law does not specify a deadline for creating electronic “public records”, or for completing the redactions. Additionally, the RR/CC is deemed to be in compliance with this law if they use “due diligence” to locate and truncate social security numbers in official records. Upon notification that a public record was not properly truncated, the RR/CC has 10 business days to replace the “public record” with a properly truncated version.

For documents submitted for recording on or after January 1, 2010, the submitter is not entitled to have their documents recorded if they contain more than the last four digits of a SSN, unless otherwise required by law. For those documents required by law to be recorded with a SSN (e.g., Abstract of Judgment, Affidavit of Death of Joint Tenant, etc.), the Department must truncate the document subsequent to recording.

GC Section 27361 also requires the Auditor-Controller to conduct two reviews of the Program, with the first review to be completed between June 1, 2012 and December 31, 2013. The reviews are required to include RR/CC’s progress in truncating recorded documents, and the Department’s estimate of any ongoing costs of complying with the GC. As part of our review, we evaluated the Department’s Program and cost controls by sampling “candidate” (documents that may require truncation) and other recorded documents, and by interviewing RR/CC management/staff. We also verified that the funds generated by the Program fee are used only for Program purposes.

COMMENTS AND RECOMMENDATIONS

Program Status

Redaction of SSNs – 1980 through 2008

GC Section 27301 requires the Department to create an electronic version of documents recorded from 1980 through 2008 (if not already in electronic format), and to truncate any of those documents that contain a SSN. The RR/CC recorded 63.9 million documents from 1980 through 2008. Of the 63.9 million recorded documents, the Department needs to convert 20.6 million microfilm documents (i.e., documents recorded from 1980 through 1991) to an electronic format, and they have identified a total of 12.5 million candidate documents that may include a SSN and require redaction.

We noted that as of June 2013, the Department had not yet truncated any of the 12.5 million candidate documents recorded from 1980 through 2008. In addition, RR/CC management indicated that they converted approximately 640,000 (3%) of the 20.6 million microfilm documents to an electronic format. RR/CC management indicated that their redaction and conversion implementation progress has been slowed in part due to unanticipated delays in procuring and implementing the systems required to perform these processes.

During our review, RR/CC management developed an estimated completion timeframe for the Program, which indicates that they will finish the conversion and truncation processes in June 2018. The Program's progress appears to have the potential for a more responsive pace if the Department monitors the Program more closely. This is discussed further in the Management Oversight section later in this report.

Redaction of SSNs – 2009 and Ongoing

RR/CC management indicated that they implemented a process to truncate candidate documents recorded after January 1, 2009. Using this process, the Department informed us that they have truncated all 1.1 million candidate documents recorded from 2009 through June 30, 2013 and redacted all identified SSNs.

However, we reviewed 50 of these candidate documents, and noted that the Department did not redact the SSN from five (10%) documents. In all five instances, the SSN appeared on a death certificate attached to an affidavit. Affidavits represent approximately 1% of the 1.1 million candidate documents. Department management indicated that inadequate staff oversight resulted in the failure to redact the SSNs.

Recommendations**Registrar-Recorder/County Clerk management:**

1. **Ensure staff re-review all affidavit candidate documents recorded after January 1, 2009, and redact any Social Security Numbers not previously redacted.**
2. **Ensure staff more carefully review and redact all Social Security Numbers that appear on candidate documents.**

Revenue and Cost Estimates

The GC requires county Auditor-Controllers to report on estimated costs to the county to complete the Program and to maintain ongoing truncation services.

Estimated Program Revenues/Costs

RR/CC management developed an estimate of the Program's future revenue and costs to complete the Program. We reviewed the Department's estimates and noted:

- **Program Revenue** – The Department collected approximately \$9.4 million in Program fees from inception on May 1, 2008 to June 30, 2013, and estimates collecting approximately \$8.7 million from July 1, 2013 to December 31, 2017, or a total estimated Program revenue of \$18.1 million.
- **Program Costs** – The Department estimates it will spend approximately \$7.1 million in Program salaries and employee benefits, materials, etc., from inception through June 2018 to fully implement the Program. This includes \$2.4 million already incurred and an additional \$4.7 million in future costs. However, based on our review, this estimate does not include the staff costs to complete the required conversion of microfilm, and the Department could not provide support/justification for their estimated materials costs.
- **Post Program Ongoing Costs** – The Department estimates spending approximately \$975,000 annually for ongoing redaction costs starting July 2018. However, we noted that the Department could not support their estimated annual workload that was used to project their ongoing staffing costs. Specifically, the Department estimated needing to review 2.5 million candidate documents annually even though based on our review they averaged 254,000 candidate documents per year over the past four years. In addition, the RR/CC could not provide support/justification for their estimated ongoing materials costs.

Recommendation

3. **Registrar-Recorder/County Clerk management revise their cost estimates to include staff costs to complete the conversion of microfilm, and further review and determine the estimated future ongoing workload and materials costs.**

Continuation of the Truncation Fee

While your Board authorized the RR/CC to charge the truncation fee until December 31, 2017, the *State of California Accounting Standards and Procedures for Counties* indicates that special fund fees should be reduced when there is an excess of available funds.

We noted that even though the RR/CC's estimated costs to fully implement the Program and ongoing costs are not accurate and/or complete as mentioned above, it appears that the Department will collect significantly more revenue than needed to complete the Program. As mentioned, the Department estimates \$18.1 million in Program collections and \$7.1 million in expenditures. This will leave a balance of over \$11 million in unexpended funds as of June 2018 when they complete truncating the documents recorded from 1980 through 2008. While the Department will incur ongoing costs after June 2018, we noted that some other counties have discontinued the Program fee and are absorbing these ongoing costs within their respective operating budget.

Once the Department revises their cost estimates as recommended above, the Department should work with the Chief Executive Office and County Counsel to determine if the Department should continue to collect the truncation fee.

Recommendation

4. **Registrar-Recorder/County Clerk management work with the Chief Executive Office and County Counsel to determine if the Department should continue to collect the truncation fee.**

Use of Funds

The GC requires county Auditor-Controllers to verify that the funds were used only for Program purposes.

The RR/CC began collecting the additional \$1 fee for recorded documents on May 1, 2008, and as of June 30, 2013, the Department had spent \$2.4 million on the Program. We reviewed 24 expenditures over a four-month period, totaling approximately \$126,000, and noted that all were used for Program purposes. Sampled expenditures included a scanner used to convert microfilm, and Departmental staff costs for individuals responsible for redacting the SSNs from candidate documents.

Management Oversight

As mentioned above, while the RR/CC is appropriately using Program funds for their intended purposes, we noted several issues with the Department's implementation of the Program. Specifically, we noted that at the time of our review the Department had not:

- Assigned any manager(s) to monitor and oversee the implementation of the Program.
- Prepared Program implementation plans or estimated timeframes.
- Prepared estimates of Program revenues or costs.

After we started our review, the Department began preparing Program estimates and more closely monitoring the Program. However, this was over four years after the Program began, and the Department's cost/revenue estimates were somewhat hastily prepared.

The revenues collected for this Program are significant. To maintain commensurate accountability and ensure effective implementation of the Program, RR/CC management should increase their level of Program oversight.

Recommendation

5. **Registrar-Recorder/County Clerk management increase their level of Program oversight.**



Los Angeles County **REGISTRAR-RECORDER/COUNTY CLERK**

DEAN C. LOGAN
Registrar-Recorder/County Clerk

December 24, 2013

TO: Wendy L. Watanabe
Auditor- Controller

FROM: Dean C. Logan
Registrar-Recorder/County Clerk

A handwritten signature in blue ink, appearing to read "Dean C. Logan", is written over the printed name and title.

**REGISTRAR-RECORDER/COUNTY CLERK - TRUNCATION FEE SPECIAL FUND
REVIEW – RESPONSE TO DRAFT AUDIT FINDINGS**

Attached is the Registrar-Recorder/County Clerk's response to the five recommendations contained in the A-C Truncation Fee Special Fund Review. We concur with your recommendations and will continue to implement strategies designed to address the findings and recommendations of this audit.

We appreciate the opportunity to include our response in your report, and thank your staff for their professionalism conducting their review of our operations.

Please let me know if you have any questions or your staff may contact Chris Nwadiwe, Fiscal Compliance Officer, at 562-462-2944 or via email at cnwadiwe@rrcc.lacounty.gov.

DCL:RF
CN:rcf

Attachment

c: Debbie Martin
Monique Blakely
Rita Figueroa
Chris Nwadiwe

**REGISTRAR-RECORDER/COUNTY CLERK
TRUNCATION FEE SPECIAL FUND REVIEW**

**RESPONSE TO DRAFT AUDIT FINDINGS
December 24, 2013**

Redaction of SSNs – 2009 and Ongoing

Recommendations:

1. **Ensure staff re-reviews all affidavit candidate documents recorded after January 1, 2009, and redact any Social Security Numbers not previously redacted.**

RR/CC Response – We agree. Every document that is targeted will go through the redaction process. Furthermore, we have updated the procedure to include and identify the Affidavit of death as a target document, which contains a social security number. A new process for the staff to spot check the redaction candidates after the documents have gone through the truncation software, was also implemented on 12/16/13. We will start with spot checking those documents recorded on Jan 1, 2009 and ongoing.

2. **Ensure staff more carefully review and redact all Social Security Numbers that appear on candidate documents.**

RR/CC Response – We agree. We have updated the procedure for the staff to spot check redaction candidates after they have gone through the truncation software to ensure redaction of any document potentially missed by system. This was implemented on 12/16/13.

Estimated Program Revenues/Costs

Recommendation:

3. **Registrar-Recorder/County Clerk management revise their cost estimates to include staff costs to complete the conversion of microfilm, and further review and determine the estimated future ongoing workload and materials costs.**

RR/CC Response – We agree. We will further evaluate the estimated future ongoing workload and materials costs. On 12/9/13, cost estimates were revised to include staff time costs to complete the conversion of microfilm. In the process of the recommended estimate review, the department has identified the need for additional image/data storage servers. The plan to purchase new computer servers will be added to the future material and equipment cost estimates and a portion of cost will be allocated to the Truncation Program.

Continuation of the Truncation Fee

Recommendation:

4. **Registrar-Recorder/County Clerk management work with the Chief Executive Office and County Counsel to determine if the Department should continue to collect the truncation fee.**

RR/CC Response – We agree. The government code is not clear when discussing the use of the fund for ongoing costs after the 2017 sunset date. We will work with the CEO and County Counsel to discuss the fee collection. However, while other counties may have stopped collecting this fee, we believe the size, number of recorded documents and budget constraints differ from county to county. Therefore, any accumulated funds will be needed to adequately cover the anticipated future ongoing maintenance, equipment, employee and overhead costs for the redaction process.

Registrar-Recorder/County Clerk - Truncation Fee Special Fund Review

Management Oversight

Recommendation:

- 5. Registrar-Recorder/County Clerk management should increase their level of Program oversight.**

RR/CC Response – We agree. The Department will ensure increased management oversight over the Truncation Program's implementation, technical support, revenue and cost estimate monitoring. Although we have followed an implementation plan, we recognize the need to formalize it in an implementation plan document. This document will be completed on 1/31/14.